

# TPP's Setback and the Future of the Asia-Pacific Economic Order

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Trump officially announced opposition to the Trans-Pacific Partnership (TPP) after he began his presidency.<sup>1</sup> TPP, though having not met its end, at least, has run aground.<sup>2</sup> Some scholars think that the Regional Comprehensive Economic Partnership (RCEP) promoted by China will be the only approach to a wider free trade area; some hold that it indicates America has failed to contain China by virtue of economic approach of its “Asia-Pacific Rebalance” strategy; some argue that Trump will have a strategic contraction in the Asia-Pacific region and that the stagnation of TPP provides a rare opportunity for China to lessen America’s regional domination and to actively lead a new Asia-Pacific order. I would argue that, to a large extent, TPP, as an economic arrangement, has been highly strategized and politicalized in the discussions of the past few years. When it ran aground, we still have to go back to the beginning and think calmly what is the purpose of TPP? What is the possible regional cooperation after the setback in the future? What kind of regional economic order meets the interests of the majority in the region? Rational considerations on these issues help us avoid misleading short-term conclusions and reap the long-term benefits.

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## I. THE GEO-ECONOMIC ESSENCE OF THE TPP

In October 2015, the Trans-Pacific Partnership negotiations led by the US and Japan reached a framework agreement, while at the APEC meeting in November, the host nation Malaysia announced that the RCEP agreement, which had been scheduled to be reached by the ASEAN-China-Japan-South Korea and India, Australia, and New Zealand at the end of 2015, was postponed until after 2016. In 2014, at the APEC summit in Beijing, China proposed to start the process of the Free Trade Area of the Asia-Pacific. It seems that the conditions are not yet ripe in the current situation. At that time, many commented that the TPP framework agreement and the delay of the RCEP mean that the United States has gained the upper hand in its strategy of containing China in the Asia-Pacific region, which, I think, is one-sided and misleading for policy making. TPP's geo-economic significance in constructing a new economic order in the region should be roundly and properly comprehended.

First, we must be aware of the fact that the TPP is essentially a Japan-US free trade agreement. Although 12 countries have participated in the TPP, whether Japan joins in the agreement is vital. Japan's GDP is more than double that of all other member states except the United States. As Japan joins, the agreement can cover 40% of the global GDP.<sup>3</sup> Because of their own domestic reasons, the Japan-US free trade agreement, which has always been discussed, has not been reached. To enforce the Japan-US free trade agreement through the multilateral way of the TPP would be a milestone, which will probably be the first time that the major economies in the Asia-Pacific implement bilateral trade agreements through multilateral means when there have been no bilateral free trade agreements between the world's three major economies—China, the United States and Japan so far. The United States' further strengthening of its economic ties with Asia undoubtedly further enhances the Japan-US alliance, and, on the other hand, encourages other major economies in the region to learn from the United States and Japan to achieve bilateral free trade agreements in a multilateral way, for instance, accelerating the China-Japan-South Korea free trade agreement negotiation, the realization of which symbolizes

the signing of the Sino-Japan bilateral free trade agreement.

Second, the signing of the TPP implies that for the first time the United States has signed legal documents with East Asia, which is a landmark in the United States' East Asian strategy. From a historical perspective, the relations between the United States and Asia have largely relied on bilateral relations and treaties and there is no integral framework for the United States and East Asia.<sup>4</sup> If the TPP is enforced, the United States will, for the first time, own a relatively complete Asian strategy and legal document. The Obama administration's Asian strategy can be precisely divided into the following steps. The first is to strengthen relations with its allied countries. Relations are doomed to be strained to some degree in this process, of which the Diaoyu Islands issue is a proof. The second is to extend partnership with Asian countries, of which the United States' consolidating contacts with ASEAN countries is a typical example. It will also bring about tension between China and the United States, of which the South China Sea issue is chief evidence. The third is the institutional arrangement of the US-Asia relation as a whole, and the TPP is an important pillar during the process. The fourth is to further take in China.<sup>5</sup> In an interview with Japan's *Nihon Keizai Shimbun*, Russell, the assistant secretary of state of the United States, pointed out that China is the core of the US Asia-Pacific strategy and the Obama administration attempts strategically to cope with this core issue by establishing institutional arrangements.

Third, the TPP could become an approach to achieve FTAAP covering 21 economies of the APEC. Judging from America's tradition of establishing a post-war international mechanism and China's own strategic thinking, both sides agree on the strategic goal of establishing a more expanded FTAAP, and the current disagreement lies in the way to achieve it. We can see that there are quite a few overlapping member states in the current TPP and RECP, which shows that the two are not mutually exclusive but cooperative and competitive to co-exist. In the dynamic view, both are likely to arrive at the same end by different means in the future and will, at some point, converge to finally achieve the Asia-Pacific integration, which will institutionally improve the strategic mutual

distrust between China and the United States.

## II. IS TPP AN ANTI-CHINA TOOL FOR THE UNITED STATES AND JAPAN?

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The perception that TPP is an anti-China tool for the United States and Japan is inaccurate or incomplete.

Since the United States and Japan started negotiations with other member states on the TPP, there has been a popular belief within China that this is a strategy of the United States and Japan to curb the rise of China, and some even hold it as a “conspiracy”.<sup>6</sup>In the context of the rapid rise of China’s economy, there is no doubt that China will compete with the United States and Japan in reconstructing the economic order in the region. It is not

surprising that there are divergent views and different approaches, but the perception that TPP is an anti-China tool for the United States and Japan is inaccurate or incomplete.

First of all, the internal impetus of TPP mainly derives from the expectation of Japan and the United States to use “external pressure” to propel domestic reform. For the United States, Doha Round negotiations of WTO have basically made no progress in the past 15 years. Some bilateral FTA negotiations began in 2011, for example, the United States signed free trade agreements with South Korea and Colombia.<sup>7</sup> However, it becomes very difficult to sign free trade agreements with larger economies due to the strong political opposition in the United States. Then the United States started new multilateral negotiations on the TPP-centered economy in the Asia-Pacific region in its foreign economic strategy.<sup>8</sup>The opening of this TPP-centered process, in turn, is synchronized with the Obama administration’s “Asia-Pacific Rebalance” strategy, which, in China, is often interpreted as an intention to contain China, but is aimed largely at propelling domestic reforms by external forces. If the 12 Asia-Pacific countries including Japan, Australia and Singapore can reach the TPP, not only economic benefits but also strategic benefits will be generated, which makes

it easier to convince the United States. The situation in Japan is similar. Japan's economic structural reforms lagged behind in the 1990s, which led to more than 20 years of low growth and made it difficult to break down all kinds of vested interest structures. The decision to participate in the TPP negotiations was first made by Prime Minister Noda of the Democratic Party, and the increase in consumption tax over the same period was also made by him, and the above decisions were carried on by Shinzo Abe of the Liberal Democratic Party after he took power. That is to say, there exists a nonpartisan consensus on the TPP issue in Japan. Taking TPP as an opportunity, the Abe administration has made progress in the National Federation of Agricultural Cooperative Associations reform and the corporation tax reduction, which were what the Prime Ministers had intended but failed to do in the past two decades. There is no essential difference between Japan's motive and China's WTO accession negotiation to promote domestic reform. If TPP can facilitate Japan's economy to further open up, its economic vitality would be boosted, which will in turn promote Japan's political ecology to develop in a more open and liberal way, so that Japan will have more confidence and extra energy to get involved in foreign relations. Moreover, Japan's economic recovery is a good thing for China.

Second, the external impetus of TPP stems from the desire of Japan and the United States to maintain their own interests and status in the new Asia-Pacific economic order, which is not simply equivalent to containing or opposing China. For the United States, TPP is an important means of maintaining its status in the designation of international economic rules, including the U.S. dollar; for Japan, upholding the U.S. system is conducive to maintaining its position in the original system. Japan's post-war economic superiority was mainly obtained through its alliance with the United States and its integration into the United States-dominated order. To maintain the vitality of this economic order accords with Japan's national interest, and to actively promote the TPP to aid the United States is to help Japan itself. Now that the political factors in the United States lead to the stagnation of TPP, which will affect Japan's own strategic role, Japan needs to

be more active in persuading and promoting the process in the United States. The actions that the United States and Japan take to sustain their own strategic interests will certainly have some contradictions with China, but this is not a zero-sum game. For one thing, compared with the way that the United States preserves order through extensively consolidating military alliances and building new military bases, it is benign for China and the United States to compete in an economic way; for another, many elements in TPP such as state-owned enterprise reforms, withdrawal of various non-trade barriers and intellectual property rights are the reform goals that China hopes to achieve in the future. If the TPP implementation goes smoothly, it will bring China more competitive pressure to further open up, and gaining such momentum may speed up China's domestic reforms. This dynamic will cause some pressures which are not entirely negative, and the crux lies in how China interprets these pressures. Treating these pressures as a means to contain China will give rise to adversarial policy results.

Now there are various well-established free trade agreements in the region, but ultimately their viability and sustainability need to be tested by the market. Whether TPP, RCEP or ASEAN Economic Community (AEC) will be approved depends not on the governments, nor on the media comment, but on the enterprises actually involved in economic activities. It is not a bad thing for enterprises to have more options, as they will find the most beneficial regional arrangement framework that is most conducive to resource allocation and profit maximization, on the basis of which they will allocate the flow of goods, personnel and capital. Therefore, in restructuring the Asia-Pacific economic order in the future, a variety of mechanisms will compete with each other over a long period of time and strive to enhance their additional values in the competition while seeking for opportunities for cooperation and integration with others, which will be a much more dynamic process and require maintaining flexibility of strategic thinking in order not to lose opportunity.

### III. THE DIVERSIFIED INTEREST DEMANDS OF TPP PARTICIPANTS

As TPP, which does not include China, is a major part of the economic policy of President Barack Obama's "Pivot to Asia" and "Asia-Pacific Rebalance" strategy, TPP, from the beginning, has often been considered as a strategic tool for the United States to contain China's rise. This perception is not without reason, but excessive emphasis on this will cause our analysis to disproportionately focus on the "China factor" in the Sino-US strategic game, ignoring imperceptibly the participating countries and their diversified interest demands.

First, besides the needs for the strategic game with China, the direct motivation for the United States to promote TPP stems from its desperation at the global trading system negotiations of WTO and its hope to lessen domestic opposition. In 2011, the Obama administration signed free trade agreements with Colombia, Panama and South Korea since the Doha Round negotiations have not progressed in more than ten years. Because of domestic opposition, signing bilateral FTAs with larger economies became even more difficult. Then the Obama administration began to seek new global and bilateral approaches, namely TPP in Asia and TTIP (Transatlantic Trade and Investment Partnership) in Europe.<sup>9</sup> The United States hopes to revive the global free trade system and simultaneously to make use of the external pressure of TPP to ease the domestic opposition.

Second, the primary reason for the advanced economies in the Asia-Pacific region to support TPP is to hold the United States to continue to play its leading role in the global free trade system. Many people believe that Japan became interested in TPP after Shinzo Abe came to power and that this is the need to assist the United States to contain China. Though this motive cannot be completely denied, Abe just merely renews the decision of the previous administration, as the Democratic Party in fact has already made the decision to join in the TPP during its ruling period. As the beneficiary of the post-war U.S.-led global trade system, Japan, the third largest economy, in the face of stagnation of free trade negotiations, realizes that its own active efforts may change the

negative attitude of the United States. Singapore, which is also a beneficiary of the global trading system, shares the same opinion in support of the TPP. In a state visit to the United States in August 2016, Singapore's Prime Minister Lee Hsien Loong also mentioned that TPP is the litmus test for the United States' credibility in Asia and appreciated Obama's ability to withstand domestic political pressure.<sup>10</sup>

Third, developed economies have intrinsic demands for TPP. With the deepening of globalization, developed economies are repositioning themselves in the global industrial chain, with the manufacturing process of the manufacturing industry being increasingly shifted to developing countries and the pre-production design and the post-production service becoming the major sources for developed economies to create added value.<sup>11</sup> Take the United States for an example, the past trade patterns have undergone fundamental changes. In 2010, 40% of the world's payments to intellectual property owners, about 100 billion U.S. dollars, a figure comparable to America's profit in aircraft, grains and business services exports, flowed into the country.<sup>12</sup> In 2012, America's oversea copyright royalties and licensing fees of intellectual property were as much as its profits in agricultural exports. With the software, technology and entertainment industries evolving, the digitalization of the media and the Internet will connect global marketplaces. Disney, Universal Studios and Microsoft put pressure on the U.S. government to adopt a more stringent system, which, for these companies, symbolizes the protection of rule of law under the new trade situation.<sup>13</sup> All these strikingly differ from traditional import tariffs reduction or trade liberalization.

Fourth, many participating countries including Malaysia, Vietnam, and even Japan expect to use TPP to promote domestic economic structure reforms and to achieve the transformation of their economic growth patterns.

#### VI. TPP'S SETBACK DOES NOT SIGNIFY RCEP'S AUTOMATIC SUCCESS.

One view is that Japanese Prime Minister Shinzo Abe has spent a lot of political resources in promoting the TPP, so the United States'



withdrawal from it damages Abe's domestic ruling legitimacy. The opposition parties take this opportunity to call to account, and domestic political turbulence would make the Abe administration incapable to continue to impel the TPP, forcing Japan to face reality to join in the RCEP, which will lay the foundation for the extensive inclusiveness of the future Free Trade Area of the Asia-Pacific. This assumption is not impossible, but it should not be a "wishful thinking." In May 2016, a poll by the *Nihon Keizai Shimbun* showed that 49% of the respondents supported the TPP and 32% opposed.<sup>14</sup> On the one hand, most Japanese people are beneficiaries of globalization; on the other hand, this also reflects their recognition of Abe's leadership in his attempt to introduce "external pressure" to force the vested interest groups to reform. Though Japan's dominating opposition parties and DPP do want to take advantage of the U.S.' withdrawal from TPP to attack on Abe's failure in economic diplomacy, the three major reasons against the TPP they enumerated are far from convincing. First, they think the Abe administration does not protect its major agricultural products and betrays national interests; second, the U.S.' tax relief for the automobile industry is not obvious; third, the talks are not transparent. However, the first reason, which, on the contrary, reminds the public of the old Liberal Democratic Party, fails to get support from the Japanese people, the majority of whom are urban residents. That even Japan's major auto companies and the economic circle endorse the TPP broke down the second reason. The third one is primarily about the procedure. These make the public believe that the DPP has made up those reasons to oppose TPP just for nothing. Meanwhile, the Liberal Democratic Party claimed to support impelling TPP in a high-profile manner in this summer's election of the House of Councilors, and the victory of the Liberal Democratic Party in the election mirrored that the public is not on the opposition side. If the DPP continues to oppose this issue for no good reason, it will only be further self-marginalized. Therefore, from a domestic political point of view, there is no pressure or motivation for Japan to completely abandon the TPP. Another view is that the failure of TPP lies in its exclusiveness, but with its openness and ease of access, RCEP can be widely accepted in the

region, which makes sense, but only halfway there. In order not to be misled, we need to have a clear understanding of the nature of these two agreements. RCEP, of which the effect is relatively obvious in the short term, is a traditional free trade arrangement to reduce or exempt customs duty, while TPP, with a long-term meaning, is an extensive economic agreement beyond traditional significance. In other words, to a certain extent, the two are not comparable, and it is not just a matter of replacing one with the other. Diverse arrangements are essential for the economies in the Asia-Pacific which are in different development phases. Even if the TPP loses efficacy, similar agreements will come out in the future, since the demand has not changed. In the future, the gradual stabilization of the economic order in the Asia-Pacific region will be embodied in the gradual narrowing of the gap between countries at different development levels (especially those major countries) and the integration of different economic arrangements to form a large economic circle, but not in the linear process of one eliminating another. If it is believed that the failure of TPP lies in its lack of inclusiveness, then RCEP also confronts the same problem of figuring out how to include the United States, Japan and other advanced economies. This is not a simple matter of one winning over another, but an issue of how to build a more inclusive and extensive economic order.

The third view is that it is easier to reach a consensus through the RCEP and thus to include Japan and the United States to successfully build the FTAAP. It is also a wonderful wish that is not easy to achieve. Quite a few member countries of RCEP, such as India, are not open enough for foreign trades, which is a great obstacle to finally reaching an agreement. If we take every country's interest into consideration, tariff reduction and exemption should also be beneficial for all countries, which will slow down the negotiation process of RCEP and impair the effect of RCEP. Vietnam, Malaysia and other potential participating countries of RCEP took part in the TPP negotiations to give possible impetus to reforms of domestic industries which were hard to propel within the country. However, it is uncertain whether RCEP can generate enough external pressure to accelerate domestic reforms. In early

August 2016, a ministerial conference of the 16 RCEP countries was held, but no joint statement was issued. There is no doubt that FTAAP will be the prospective target of cooperation in the Asia-Pacific region, but there are still many challenges to make it come true in the short term. Now that Trump has withdrawn from TPP, it is even harder to assume that he will readily support FTAAP.

The fourth view is that TPP's derailment will cause America's leadership in the Asia-Pacific economic order to be shifted automatically to China. The interpretation of the leadership dispute often captures people's attention. However, the leadership right is not just the result of a scramble, but, to some extent, a process of natural formation and transition. Instead of relying entirely on grand strategy, the current economic dominance of the United States in the Asia-Pacific region or even in the world is also historically formed. Under the special circumstance of the United States' overwhelming economic, technical, military and cultural power after World War II and major countries' inability to undertake the reconstruction of international order, the United States' leadership became absolutely necessary (This, of course, later let the United States start deeming itself exceptional). Nowadays, China's rise has greatly changed the economic balance of the Asia-Pacific. China's GDP accounts for 15% of the world's, with its trade volume being the highest in the world. It is not out of a hollow slogan but out of the actual need and the voice of the world that China needs to come up with a "Chinese Solution." At the same time, it should be noted that China now plays a big but not dominant role in the construction of the Asia-Pacific economic order compared with the post-War United States. The combined economic scale of the United States and Japan is still much larger than that of China. According to the IMF data, in 2015, China's import volume accounted for 12% of the world's, while that of the developed Asia-Pacific economies such as Japan, the United States and South Korea was about 37%. Moreover, in comparison with these developed economies, China is still not a major import country of the world's end-consumer goods, which will have an impact on China's leadership of trade liberalization. Therefore, the prompt upgrading of China's domestic economy is also one of the

important preconditions for China to play a greater leading role in the construction of the international economic order.

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constructing an FTAAP and to enhance the confidence of the economies in the region in the construction of the Asia-Pacific economic order. In November 2016, at the APEC CEO Summit in Peru, Chinese President Xi Jinping, in his keynote speech, specifically pointed out that to successfully establish FTAAP thus to effectively respond to "the challenge that regional economic integration goes fragmented" is not an easy task, which requires the spirit of "turning a blueprint into reality".<sup>15</sup> According to the estimation of the World Trade Organization, world trade will, for the first time of the past 15 years, grow less than GDP in 2016, while Asia's export in this year will be only 0.3%, well below the 8% of the past 20 years.<sup>16</sup>

Second, in reality, there will be a transitional period when bilateral agreements increase. It is precisely because non-China factors still exist in the TPP concept after its setback, and RCEP will not progress very smoothly. TPP will likely be partially continued in the form of a Japan-U.S. bilateral trade agreement, but a truly breakthrough in RCEP may require a free trade agreement between China and Japan. That major economies reach bilateral agreements would have a deterrent effect on the fragmentation of the disorder caused by large numbers of bilateral agreements. There are now 147 bilateral trade agreements in Asia and 68 under negotiation, while the number one decade ago was

V. THE POST-TPP ASIA-PACIFIC ECONOMIC ORDER AND THE COOPERATION OF CHINA, JAPAN AND THE UNITED STATES

First of all, China, Japan and the United States, as the world's largest economies, need to clearly define the long-term prospect of

82.<sup>17</sup> During the NPC and CPPCC sessions in 2016, Chinese Minister of Commerce Gao Hucheng commented at a press conference that China neither regards the TPP as a confrontation with China nor considers it in conflict with the RCEP which covers trade negotiations with greatest diversity.<sup>18</sup>

Finally, China and Japan have the potential to cooperate in the development of the regional economic order. In some sense, China is also the beneficiary of the post-war U.S.-dominated economic order, at which point it possesses no essential difference from Japan. Part of the motivation of the ongoing BIT negotiations between China and the United States is also for the United States to maintain its economy open. Among developed economies, Japan's domestic affairs, with stable support for Abe, are the most stable, and China's domestic affairs, with strong central authority, are stable as well, providing favorable domestic political conditions for the two countries to promote free trade.

#### VI. SINO-US BIT PROVIDES A NEW IMPETUS FOR REFORM AND OPENING UP AS EFFECTIVELY AS "CHINA'S ACCESSION TO THE WTO".

At the opening ceremony of the eighth round of Sino-US Strategic and Economic Dialogue in 2016, Chinese President Xi Jinping specifically mentioned to "strive mightily for a mutually beneficial and win-win Sino-US investment agreement as soon as possible", a clear signal which has never been made before.<sup>19</sup> For China, the greatest significance of bilateral agreements lies in utilizing "external forces" to promote China's domestic reforms and to provide a propeller for a new round of economic development model transformation, industrial upgrading and opening up to the outside world.

First of all, at the national level, the Sino-US bilateral investment treaty is like the WTO accession negotiation, an approach to promoting a new round of reforms. In the late 1990s, China used its WTO accession negotiation to promote domestic reforms and through restructuring and listing of state-owned enterprises, broke the system in which the state is responsible for their finance, thus achieving the historic reorganization of state-owned enterprises.

The efforts made before China's accession to the WTO in 2001 have generated a sustained impetus to China's economic boom after its accession, making China the second-largest economy in the world. It could be said that without the "external pressure" of "China's accession to the WTO", it would be very hard to enforce reforms promoted by Jiang Zemin and Zhu Rongji. Although the state-owned large enterprises have indeed become larger and stronger, now China is confronted with reform predicaments again, since the vested interests have made it difficult for the market to become a decisive force, and the social costs of the past models such as environmental pollution and high energy consumption have become very prominent. Sino-US BIT will serve as a major "external force" which will be much helpful for Chinese reformers in a new round of reform to practice the development model transformation of governing the country according to the law and adjusting the economy by the market. The BIT will also offer Chinese enterprises an opportunity to enter the US market. The high competition in the US market differs from that of the developing countries which China has mainly accessed in the past decade, which is conducive to the modernization of state-owned enterprises and the enhancement of their competitiveness. The crucial mission should be undertaken by real managerial talents. China's national goal is to deliver on the Two Centenary Goals and realize the Chinese Dream, which requires us to jump out of the "Middle-Income Trap." According to the statistics of the World Bank, about 100 countries were recognized as middle-income countries in 1960, but only 13 of them became high-income countries in the following 50 years.<sup>20</sup> Pursuing further opening up and relaxing investment restrictions will allow more foreign capital and private capital to enter the market, introduce competition mechanisms and stimulate innovation.

Second, at the regional level, the Sino-US BIT is a trend-setter, pushing the Asia-Pacific economic integration toward a more inclusive direction. China's initial negative attitude toward the TPP was mainly out of the concern that the United States would create its small trade circle in the region to exclude China, which could eventually lead to a sharp decline in the trade between China and Asia

that would affect China's economy. However, China began to find out that in fact, in quite a few ways the TPP indicates the direction of China's reform in the future. With China's Belt and Road initiative and its proposal for an Asian Infrastructure Investment Bank, it becomes more realistic for Chinese enterprises to go global on a large scale. This is quite different from China's previous role as an export base. Outbound M&A and investment activities need to be legally protected, which is also why at the 10th CJK Celebrity Conference, Long Yongtu, the chief negotiator for China's accession to the WTO, clearly proposed to highly evaluate the economic effects of TPP and to integrate it with RCEP.<sup>21</sup> If China and the United States can make breakthroughs in the BIT, it undoubtedly will stimulate other economies to speed up their negotiations with China.

Thirdly, at the global level, the Sino-US BIT will further motivate the sustainable development of emerging economies, laying the foundation for the balance of the global economic power and the establishment of a more just and reasonable global economic governance order. The rapid rise of China after its accession to the WTO is not just the "thriving" of China, but the common rise of emerging nations. China has served as "the workshop of the world" where many emerging countries provided raw materials and energy sources in order to develop. As China's economy slows down and its demand for raw materials is shrinking, these countries are also facing the task of economic restructuring. Sino-US BIT will drive emerging countries to follow suit and translate it into new impetus for their reform, providing an opportunity for economic diversification and sustainable development depending less on foreign countries.

It is clear that what Xi Jinping has declared is not empty talk, but the leading collectives' firm belief and strong resolution for domestic reform and opening up, and a significant commitment to the improvement of regional and global governance.

## VII. THE IMPLICATIONS OF THE SINO-US BIT FOR THE UNITED STATES' OWN REFORM

The negotiation on China's accession to the WTO basically is a

unilateral process in which the United States makes demands and China bargains, but the negotiation of the BIT is very different.

First, China demands the United States to make corresponding reforms, which is also the “external force” for the reform of the United States. Just like the “WTO accession” negotiation, the main reason for the United States’ opposition to the BIT is the fear of job losses which lies in the less competitiveness of its labor force in the international market and the productivity improvement brought about by technological progress. Therefore, using job losses as the excuse to oppose the BIT actually conceals its unwillingness to reform. After China’s accession to the WTO, the United States mainly relies on IT and finance for its economic growth, and no significant improvement has been made in its international competitiveness of the labor force, which implies that the United States needs to resolutely change the unsustainable development model that relies on credit-driven consumption. The United States, too, is facing various challenges to reform, such as less impetus for reform due to vested interests, so the BIT is an impetus and opportunity for reform for both China and the United States.

Second, at a regional level, the BIT will facilitate the United States’ further involvement in the Asian economic integration. Successful BIT negotiations will enable the United States’ enterprises to engage in the projects of the Belt and Road and make it easier to participate in Asian Infrastructure Investment Bank. China’s entry into the TPP will also be accelerated. In other words, the opinion that the United States and China diverge in regional economic governance will be overthrown, and they will move forward to integration. In 2014, when Xi Jinping met with the US President Barack Obama, Xi pointed out clearly the importance of the negotiation of a high standard BIT that reflects a shared commitment to the objectives of non-discrimination, fairness, openness and transparency.<sup>22</sup> Bilateral investment treaties ensure the legal rights of foreign enterprises to receive the same national treatment. Although the details of bilateral investment treaties may differ, they essentially allow investors to resolve their indemnity claim through binding and neutral international arbitrations instead of local courts, which are actually in accord with some parts of the TPP.



Third, an investment agreement at the global level will help improve the international economic governance mechanism. The World Trade Organization provides a basic framework for international trade, yet there is no widely applicable mechanism in the investment field. If the Sino-US BIT is reached, legally binding rules will be used to ensure that foreign investors receive the same treatment as local investors, which symbolizes that the world's two largest economies agree to allow investors to resort to binding international arbitrations rather than through local courts<sup>23</sup> or local governments to resolve their lawsuits.

Although the TPP is stranded, restructuring domestic economic structure and regional economic order in the Asia-Pacific countries will not stagnate. Both investment agreements and free

trade agreements must meet the needs of various economies in the region and will be conducive to the promotion of their domestic economic reforms. However, the leadership in building the Asia-Pacific economic order will not be gained by one country, but will be a shared leadership, and the key lies in the cooperation between China, Japan and the United States.

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<sup>1</sup> "Trump Abandons Trans-Pacific Partnership, Obama's Signature Trade Deal," *The New York Times*, January 23, 2017.

<sup>2</sup> "Pacific Trade Try Persist Persevere," *The Economist*, November 19, 2016, p.13.

<sup>3</sup> Bernard K. Gordon, "Trading Up in Asia: Why the United States Needs the Trans-Pacific Partnership," *Foreign Affairs*, July/August 2012, pp.18-19.

<sup>4</sup> Zhang Yun, America's New Enthusiasm for East-Asian Multilateralism? On the Obama Administration's Understanding of Integration in East Asia, *China International Strategy Review 2014*, Beijing: World Affairs Press, 2014, pp. 273-283; *Keep Tensions Under Control: Perception and Misconceptions between China, Japan and the United States*, Hangzhou: Zhejiang People's Publishing House, 2016; Co-construction of the East Asian International Order and the Trilateral Relations

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<sup>5</sup> Remarks By Tom Donilon, National Security Advisor to the President: “The United States and the Asia-Pacific in 2013,” At The Asia Society, New York, March 11, 2013, <https://obamawhitehouse.archives.gov/the-pressoffice/2013/03/11/remarks-tom-donilon-national-security-advisor-president-united-states-an>.

<sup>6</sup> “Regional development All Partners Except China,” *The Economist*, November 14, 2015, p.29.

<sup>7</sup> Bernard K. Gordon, “Trading Up in Asia: Why the United States Needs the Trans-Pacific Partnership,” *Foreign Affairs*, July/August 2012, p.17.

<sup>8</sup> Zhang Yun, *Keep Tensions under Control: Perception and Misconceptions between China, Japan and the United States*, Hangzhou: Zhejiang People’s Publishing House, 2016, p.165.

<sup>9</sup> Ibid.

<sup>10</sup> “Singapore backs US push on trade deal,” *Financial Times*, August 3, 2016.

<sup>11</sup> The Speech of Haruhiko Kuroda, President of Bank of Japan, International Conference of Japan Society for Economic Research, February 14, 2017.

<sup>12</sup> Bernard K. Gordon, “Trading Up in Asia: Why the United States Needs the Trans-Pacific Partnership,” *Foreign Affairs*, July/August 2012, p.20.

<sup>13</sup> “A new world of royalties,” *Financial Times*, September 24, 2012.

<sup>14</sup> *Nihon Keizai Shimbun*, May 2, 2016.

<sup>15</sup> Xi Jinping’s Speech at the APEC CEO Summit, November 19, 2016, Lima, Peru, [http://news.xinhuanet.com/2016-11/20/c\\_129370744.htm](http://news.xinhuanet.com/2016-11/20/c_129370744.htm).

<sup>16</sup> “Trading down the collapse of TPP,” *The Economist*, November 19, 2016, p. 23.

<sup>17</sup> Ibid.

<sup>18</sup> *People’s Daily Overseas Edition*, February 23, 2016.

<sup>19</sup> *People’s Daily*, June 7, 2016.

<sup>20</sup> The Speech of Haruhiko Kuroda, President of the Bank of Japan, International Conference of Japan Society for Economic Research, February 14, 2017.

<sup>21</sup> *Nihon Keizai Shimbun*, December 13, 2015.

<sup>22</sup> *People’s Daily*, November 13, 2014.

<sup>23</sup> Henry M. Paulson, Jr, *Dealing with China: An Insider Unmasks the New Economic Superpower*, London: Headline Publishing Group, 2015, p.310.